



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

# A NEW DEPARTURE IN ENGLISH TAXATION.

BY THE RIGHT HON. LORD PLAYFAIR, K. C. B.

---

SIR WILLIAM HARCOURT'S budget, as Chancellor of the Exchequer in England, is based on the principle that death duties should be graduated on realized wealth in proportion to the size and value of the estate. An estate worth £100 at the death of the owner is taxed 1 per cent., £1 being due to the government, while £99 passes to the heir. But an estate of £1,000,000 has to pay 8 per cent., £80,000 being due to the government and £920,000 passing to the heir. The new progressive tax does not begin till estates have reached £25,000 in value, although there are old death duties under the law of 1853 which are payable by all estates, so, under the old and the new law, estates worth £1,000 have to pay £20 ; estates valued at £10,000, pay £300 ; an estate of £100,000 is taxed £5,500, and one of £1,000,000 pays the highest tax of 8 per cent., or £80,000.

The adoption of progressive taxation in ratio to realized wealth, as a permanent principle of English finance, involves such important consequences that it deserves careful consideration by all countries which have been accustomed to look upon the United Kingdom as thoroughly conservative in its dealings with property. No doubt the principle of graduation in taxation has appeared in a tentative form in various kinds of English taxes. The assessed taxes are chiefly on wealth, for the rich have to pay for licenses to carry armorial bearings, to keep carriages, and to powder the hair of their footmen. The inhabited house duty is another instance in which taxes are levied in ratio to value, and there are other cases of a like kind, such as the exemptions from income tax and the old estate duty. The income tax clearly involves the principle of graduation, both in the United States and in England. The entire exemption of payment of persons having incomes of

less than four thousand dollars in the former country, and of £160 in the latter, while partial exemption is given up to incomes of £400, involves the principle of graduated taxation, though it does not go so far in its application as to tax in ratio to the amount of income. These past instances of graduated taxation in English finance are probably accidental or are merely tentative. Sir William Harcourt's new budget, for the first time, makes a bold and permanent application of the principle that large estates, both personal and real, should pay death duties in proportion to their size. Formerly, taxation at death was complicated and unjustifiable in its mode of incidence, real estate escaping from some kinds of taxation to which personal estate was liable; but all forms are now brought under an identical scheme of taxation, which in future is to be called "Estate Duty."

These changes in the system of English taxation have not been made without violent opposition by the wealthy classes. The adoption of graduation is a sign that democracy has largely increased its power in English politics. As long as the fiscal policy of the State chiefly depended on the upper classes of society, progressive taxation had little chance of acceptance. It is viewed with greater favor now that political power has shifted to the great body of the working classes. No one can be blind to the possible danger of the principle of graduation. A graduated tax on realized wealth has no well-defined limits, and could be pushed by irresponsible power to the extent of confiscation. Indeed, it has sometimes been used for this purpose by Eastern despotisms and by revolutionary democracies in Europe. It is, therefore, the bounden duty of all rational governments to watch with great care the growth of progressive taxation, so that it may not exceed the fair equities of contribution to the purposes of the State. It is impossible for nations to blind themselves to the many loose theories of taxation advocated by the extreme section of the Socialists, or to the wild ravings of Communists and Anarchists. The inequalities in the distribution of wealth give a color to their theories, and so long as realized wealth refuses to show willingness to pay according to ability, in an equitable way, these theories will become part of the popular belief and may lead to disastrous results. The great experiment now made in England is believed by the present Government to be a fair concession to the demands of a reasonable democracy, while it is

a barrier to the advance of unreasonable opinion. The opponents of the principle look upon it as an inclined plane to communism, or, at least, as "the thin end of the wedge" which may be driven home so as to disrupt society. The Liberal party in England, however, are practically unanimous that progressive taxation must be adopted as a wise conservative measure, which will be safe-guarded by the good sense and moderation of the great body of the people who may be trusted to protect realized wealth from the attacks of small, but mischievous, societies of Communists and Anarchists. The late Earl of Derby was one of the most conservative and level-headed politicians of this generation and has left a record of his public experience in the following words, published since his death: "I have learned more and more forcibly the uselessness, to put it on no other ground, of attempting to resist the progress of popular ideas, and I have come to think more and more highly of the moderation, the fairness and the general justice with which the masses of men, including all conditions of life, are disposed to use their power." No words could better explain the reasons which have induced liberal statesmen in England to concede, and, at the same time, to regulate the demand for progressional rates in death duties. The writer uses the adjective "progressional" advisedly, because certain political economists, who oppose progressive duties, think that progressional taxation indicates a rational and discreet application of the principle.

The opponents of progressional death duties, both in the House of Commons and House of Lords, met Harcourt's measure with the same arguments which Cavendish used against Pitt's Bill in 1795, and which another Cavendish, in the person of the Duke of Devonshire, better known as Lord Hartington, again repeated to the Peers during the debate of the present year. Both the Cavendishes contended that, if large estates were heavily taxed, the beauty and charm of rural England would disappear, because great domains, with their extensive parks, plantations, and pleasure gardens, must be cut up into allotments and market gardens, or, at the best, into small villas with ten-acre enclosures. To the numerous Americans who have travelled in England and admired its parks, moors, and forests, as well as its stately mansions, this argument of the two Cavendishes, though separated by a century in time, will still appear to be potent. During that century we have had much practical experi-

ience. Pitt indeed failed to carry his scheme of taxation in 1795, but its general principles were adopted in an act of 1853, by which duties were imposed on succession and estates. While that measure was passing through Parliament the prophets of evil again denounced the destruction of rural England just as they are doing in 1894. Yet the great estates still survive and their capital value has immensely increased. The Duke of Devonshire contends that certain ornamental estates, in which considerable parts, such as the mansion, the pictures, the woods, the gardens, are for enjoyment and not for profit, must be taxed, under the progression scheme, to such an extent as to charge five years' rental of the estate upon the incoming heir. Cases of this kind will, no doubt, occur and are to be regretted, though, fortunately, they will be rare. Estates chiefly consisting of agricultural land, even if in a millionaire's possession and paying the highest tax of 8 per cent., will seldom have to pay more than two years' income. The Government contend that this death duty is not a charge upon the heir, but a deferred debt due to the State by the deceased ancestor. It is, in fact, a deferred and cumulative income tax, charged on the possessor of an estate, and payable at his death by his executor along with other debts which the deceased may have incurred. If the testator desire that his realised capital should go to his heirs undiminished in amount, he ought to secure this deferred State debt by insurance on his life. As the new progressive taxation only begins on an estate of between £25,000 and £50,000, and then amounts to £250, an insurance policy for this sum could be taken out by a man aged 40 at the moderate payment of seven pounds annually. A man leaving the substantial fortune of £100,000 would require to provide £1,500 for the increased State duty at his death, and he might secure this big insurance at an annual premium of £40. The happy possessor of a million sterling, who has incurred a State debt of £80,000, one-half of which consists of the new progressive tax, could insure the payment of this increase by an annual premium of £1,100, or the whole estate duty at £2,200. This yearly thrift on an income of at least £30,000 is not excessive. The writer knows an instance of a well-known multiple millionaire who has insured his life for £200,000 in order that his capital may pass undiminished to his heirs. There are cases of aged persons and of uninsurable lives

in which insurance cannot be adopted, and then the owners will probably defeat the Government tax by transferring their estates during their lives to the intended heirs.

This is quite possible, and in some cases it is being done, but the life of owners is short and that of the State is long, so that the adjustment of income to the increased tax will in time become normal.

Having shown that the application of progressional taxation to death duties in England is not dangerous in its present form, it may be well to consider it more generally in its relation to the acknowledged doctrines of political economy. It may at once be admitted that the older political economists, and some of the modern, are opposed to progressive and even to progressional taxation of realized capital either during the life or at the death of the owner. Adam Smith saw in such a tax the discouragement of thrift and its ultimate incidence on the working classes. John Stuart Mill opposed the principle of progression in its application to income tax, but he admitted that it might fairly be applied to death duties. Some French economists, like Montesquieu and Say, approve the principle of progression, but think it should be applied with great care and discretion. Say goes so far as to contend "that taxation cannot be equitable unless its ratio is progressional." Walker and some other American economists treat progressive taxation in an open spirit as an academic question, in which the United States have only a theoretical interest.

Since the time of Solon the subject of progressive taxation has been before law-givers and economists, and the fact that it has been so sparingly adopted in civilized States may fairly be construed as an admission that the principle is viewed with suspicion and distrust. According to the Solonian laws the citizens of Athens were divided into four classes. The lowest class was altogether freed from taxation; the second class was assessed upon a capital estimated at five times the amount of their income; the third class at ten times, and the fourth or richest class on a capital assumed to be twelve times their income. This example has not been extensively followed, though a few countries such as Germany have not hesitated to tax capital when the needs of the State were great. A sense of equity has kept such taxation within narrow limits, and it is only among Eastern despots and

French revolutionists that it has been carried to dangerous lengths. It has never taken deep root as a universal principle of taxation. A more common principle of State contribution has been that the equities of taxation should mainly rest on the ability to pay, or on the protection given by the State. Writers, like the well-known philosopher Babbass, have contended that every workingman should pay income tax according to his earnings, because he receives as much protection from the Government as the millionaire. Taxation cannot be assessed in the ratio of protection, because the greatest amount of it is given to the poorest and feeblest of the population—to children, women, paupers and the disabled. When people are earning merely living wages they cannot pay a tax, for, if it were taken by the tax collector with one hand, he must restore it with the other as a pauper's dole. Wage-earners of full working ability do contribute to the State through indirect taxation of commodities, but they could not bear the added burden of an income tax without destroying their thrift as a provision for old age; for the abstraction of a fraction of their wages is far more burdensome to the working classes than is the withdrawal of a like fraction from the income of rich men. Hence, in countries with an income tax, the principle of graduated taxation has insensibly crept in by exempting persons at the lower part of the scale. In Harcourt's recent budget, while he increased taxation on the rich, he exempted wholly or partially all persons with incomes of less than two thousand dollars. Although the income tax was increased by another penny on the pound, the English Government felt that it would bear no more in time of peace. It might have been made progressive in relation to annual earnings, but that was more dangerous than the taxation of realized wealth, because incomes form a precarious security, being dependent on health and the maintenance of working ability. It is desirable to encourage the earner who is struggling to save for himself and his family, so as to have a provision when his faculties fail. All taxation interferes with production, so the statesman has to choose that form which will cause least evil.

The taxation of the United Kingdom is not excessive, when compared with other countries, but this year the Chancellor of the Exchequer has had to find new sources of revenue to meet a deficit of four and a half million sterling. The continued increase

in the armaments of Europe, and more especially of France, is a subject of grave anxiety to England, and produces panics at intervals of five or six years. Then the richer classes get up an irresistible agitation for an increase of the British navy. The working classes do not take an active part in this agitation and remain passive spectators of this movement among the capitalists. The Liberals, as a party, advocate a steady increase and efficient maintenance of the navy, but they distrust these periodical scares which lead to sudden and extravagant expenditure. The present Government does not seem to have been unwilling to give an important object lesson to the capitalist and combative classes that they who call for the tune ought to pay the piper. The rich men, who thus find themselves hit with the progressive taxation, protest by the well-worn argument that, as a tax on realized capital lessens productive industry, its ultimate incidence must be on the working classes. Admitting that all taxation is injurious to reproductive industry, except that portion which is spent on education or for the prevention of crime, it may still be asserted that it is not more injurious to take money out of realized capital than it is to take it out of income, the sources of the thrift which produces capital. The English Parliament has acted on this conviction in the past by taxing estates on the death of an owner to the extent of £10,000,000 annually, and during the present year has, by progressional taxation, added £3,500,000 to the revenue. A tax of less than £14,000,000 on realized wealth is like a tiny drop of water taken out of a large bucket on the point of a needle, for it is absolutely insignificant in proportion to the huge accumulated wealth of the nation. In proportion to the annual increase of capital, it is also a trifling abstraction. The danger is not in the present, but in the future, because it opens up a new form of taxation, which might lead to inequities between class and class. The security against these is in the good sense and prudence of the people, who are not likely to kill the goose that lays the golden egg. No doubt all European States are in great danger of future financial troubles. Every nation had deficits in the budgets of the present year, and most of them have supplied the deficient revenues by new loans, which are only a means of postponing the day of bankruptcy. For some years the war budgets of Europe have been increasing at the annual rate of 23 per cent. It is certain that this cannot continue without financial



ruin. A serious diplomatic effort is now being made, not to lessen existing armaments, but to come to an international understanding, that the present war expenditure shall be fixed as a maximum, not to be increased during the remaining years of this century, by which time the unholy competition among nations to increase their preparations for war may have subsided, and national disputes may be settled by arbitration, instead of by blood-shedding. There seems to be a possibility that nations, which all dread war, may desist for a few years from increasing their vast war budgets, and that a maximum expenditure has been reached. If this happy result should be attained, the new departure in taxation of the English Government is not likely to lead to far-reaching consequences.

PLAYFAIR.